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REVITALIZING NEIGHBORHOODS

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SPECIAL REPORT:

Applying for a Second-Round Urban Empowerment Zone

Assistance Available Even for Communities that Don't Apply

Navigating through applications for federal grant money normally is a trying task. But with a chance at up to \$100 million in funds and potentially millions more in tax incentives, applicants for the second round of urban Empowerment Zones will want to double and triple-check to see that all their "i"s are dotted and "t"s are crossed. So in this issue of *Revitalizing Neighborhoods*, we take a close look at the application process and what has changed since the ground-breaking first round.

Application process

Due to less support from Congress, the second round of designations has been substantially reduced from the initial round. Twenty Empowerment Zones — 15 urban and five rural — will be designated by the departments of Housing & Urban Development and Agriculture by the end of this year, a far cry from the 11 EZs and 94 Enterprise Communities designated in round one. Congress authorized no new ECs for the second round.

Potentially, the funding for the second-round urban zones could be the same. The Clinton Administration is seeking \$100 million in grants for each of the 15 zones. This funding, the form of Title XX Social Services Block Grant (SSBG) dollars, remains up in the air however. The request, made legislatively in HR 3622 and S 1927, remains stuck in Congress. The prognosis is unclear.

Gloria Robinson, community empowerment assistant to HUD Secretary Andrew Cuomo, is telling applicants to prepare their plans with \$100 million in funding in mind. Should Congress approve less funding, the new zones would divvy up a smaller pie. If no funds are appropriated, communities still would be eligible for tax incentives and the benefits

It's Not Just for EZs Anymore

Much of this issue is devoted to the second round of the EZ program, but the tips offered here apply to any community working to assist its distressed neighborhoods.



technical and program assistance from HUD and other federal agencies, elements that form the strong backbone of the EZ/EC initiative.

Independent of congressional approval for SSBG funds, HUD already has set aside \$100,000 per zone as an immediate infusion of cash to get local efforts off the ground. Robinson explained that some first-round designees struggled during the time they waited for the federal government to free up their grant money. This time, community activities won't skip a beat.

Zone applications are due to HUD by Oct. 9. The 1997 Taxpayer Relief Act, which authorized the new round, requires designations to be made by Jan. 1, 1999. Robinson said HUD should announce its designees in December.

Publications

A series of documents lead communities through the application process. They also will prove useful in communities that are not applying but still need relief from economic distress.



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HUD published the rules for applying in the April 10 issue of the *Federal Register*. In that same issue, HUD issued a notice inviting applications, which features details on how applications will be evaluated.

Preliminary guidelines regarding the usage of the SSBG funds have been released by the Department of Health & Human Services (see inset).

Because of one of the major changes in the EZ application process, HUD published the *Performance Measurement*

System Guide, which will help communities integrate performance measurements into their strategic planning efforts. When HUD accepted first-round applications, measuring community performance was little more than an afterthought. The department has since realized that performance measurement is vital toward setting goals.

Robinson said that recognizing the role of performance measurements not only helps in the planning process, but is extremely helpful when communities implement their plans.

For EZ applicants and non-applicants alike, the *Federal Programs Guide* should be on all community bookshelves. This compendium runs through every federal agency and offers details on programs that help all distressed communities, including HUD's Brownfields Economic Development Initiative and Community Outreach Partnership Centers.

Another useful publication — whether or not you apply — is *Tax Incentives for Empowerment Zones and Other Distressed Communities*. It details the various tax breaks available for businesses located within designated EZs and other poor areas. These include: the work opportunity credit, welfare-to-work credit and tax-exempt bond financing. This guide, Publication 954, is free from the Internal Revenue Service, 800/TAX-FORM (800/829-3676).

In communities where comprehensive planning has not taken place for several years, the *Strategic Planning Guide* will be handy. The book walks readers through the collab-

Eligible SSBG Uses

- ◆ Economic and community development programs
- ◆ Job training
- ◆ Transportation services
- ◆ Policing and criminal justice projects, such as community policing efforts
- ◆ Housing programs
- ◆ Projects to finance community-focused financial institutions that improve the availability of credit to poor, urban residents

rative planning process.

Communities brainstorming different ideas for prospective EZ programs can learn from earlier designees in *What Works! in the Empowerment Zones and Enterprise Communities, Volume II*. It reviews case studies of urban and rural programs that have been implemented by first-rounders.

All HUD-issued EZ publications — including applications — are free from HUD's Community Connections hotline, 800/998-9999.

A new twist for eligibility

Eligible communities may nominate high-poverty areas — as defined by program regulations — with populations between 50,000 and 200,000. A potential zone cannot be larger than 20 square miles and may be spread among three non-contiguous census tracts.

New for the second round is the so-called developable sites element. This allows an EZ applicant to include in an application an additional 2,000 acres of property for commercial and industrial use. This extra land is exempt from the poverty rate criteria of the base zone. The 2,000 acres also may be spread among three non-contiguous areas. Developable sites are eligible for all the tax benefits that the zones receive.

"This is your opportunity to be creative about economic development and job creation," Robinson said. This also is a chance to be creative with partnerships, since developable sites do not even have to be in the same jurisdiction. For example, a city may add 2,000 acres of a former military base located beyond the city limits to its EZ application. Robinson said this lends itself well to regional approaches to redevelop closed airports, underutilized ports and industrial brownfields.

To include developable sites in a zone application, a community must demonstrate a link between EZ residents and the sites, such as available transportation that will get zone residents to and from jobs at these sites.

Submission

Although not required, communities are urged to submit a notice of intent to apply for zone designation. This puts community information into the federal EZ/EC initiative database so that cities, towns and counties receive the latest pro-

gram information. A list of potential applicants also will be sent to federal and state agencies so they might offer help to these distressed communities.

Because of the detail of planning involved, the application process is time-consuming. A well-prepared application could take upwards of six months and run more than 100 pages. Robinson has asked applicants to limit their submissions to 150 pages.

For those applying for the first time, Robinson suggested reaching out to first-round applicants for advice. There will be an opportunity for community outreach at a White House conference on EZs in mid-July. Contact HUD's Community Connections hotline for details as they become available.

The application itself has four parts.

State and local government identification. Basic information. This is where the nominating governments involved in the application identify themselves. Zones may fall within and be run by a city, be jointly operated by a city and county, or even cross state lines (as is the case with the successful first-round EC application for Kansas and Missouri sections of Kansas City).

Eligibility information. Here, applicants demonstrate that the area they are proposing for designation in fact meets the statutory eligibility standards. This includes proof that the area has high poverty. Maps of the nominated tracts also must be submitted.

Certifications. More basic information. The applying government(s) must certify that the area meets all program requirements.

Population data. Applicants must delineate the census tracts included in the potential zone and provide details regarding population, land area and poverty.

Where things get lengthy is in the strategic plan, which supplements the application. Described by Robinson as "the core of the application," a strategic plan should spell out community's problems and explain how a zone designation will lead to change.

Strategic planning

Robinson said the most successful first-round EZs and ECs have been the ones that were the most specific in their plans at the beginning. Their plans featured more partners, leve-

aged more public and private funds and had more broad community participation during the application stage.

Participation will prove valuable even if a community does not secure zone designation. Robinson noted, because the groundwork will have been laid for strong working relationships. The value of this intangible cannot be underestimated.

Strategic plans should have five elements, each important in its own right (*see inset for rating system*).

Visions/Values. This is the big picture. What is an applicant's vision for the future?

Community assessment. A look at where the community is today in relation to its strengths and weaknesses.

Goals. What the applicant hopes to accomplish. For example, this could include: reducing unemployment by 10 percent, lowering high school dropout rates by 20 percent or reducing the number of homeless by 15 percent.

Implementation plan. This is a new requirement. HUD wants more specificity from applicants regarding their plans. What projects and programs are planned for the first two years after designation? How will the zone be governed?

How will available tax incentives be used?

Robinson said the use of tax incentives was widely overlooked in round one, in many cases because they were difficult to use or not understood. Designees also had trouble fitting their usage under state bonding caps. That problem should be solved in round two with up to \$230 million in tax-exempt bond authority available for each community outside their state caps.

The implementation plan also must include a community performance assessment — in other words, how the community will ensure the strategic plan reflects what it wants it to do. And, with the future in mind, that the community can update the plan as years pass to make sure things are moving on the right track.

In support of this, communities must include in their applications a performance measurement system, a new requirement in this round.

Strategic Planning Process Documentation. In this fifth element of the strategic plan, HUD simply wants communities to document the process that led to the creation of their strategic plans. This doesn't mean submitting sign-in sheets from every community meeting, but documentation should reflect the broad-based participation in the process.

This requirement was added for round two because it was apparent in some first-round applications that strategic plans were prepared by hired consulting firms and may not have necessarily reflected a community's vision.

Jarle Crocker, an associate with the Program for Community Problem Solving at the National Civic League, said local governments often make decisions unilaterally. They plan programs and projects with little public input, announce their plans and then defend them against criticism. He said communities work this way because it is easier and faster to make decisions when only a small group is involved.

In the collaborative strategic planning process, however the decision-making process involves stakeholders from throughout the community. Together this group can develop programs that address a wider range of issues within the community. Following this model, the process should be:

Inclusive and participatory. Reach out to every sector of the community — nonprofits, the educational system, gov-

The Ratings Game

Applications will be rated on the following elements (with the maximum points listed for each):

Quality of Strategic Plan

Vision/Values	5
Community Assessment	10
Goals	10
Implementation Plan	35
a. project/programs	15
b. tax incentive utilization plan	10
c. governance plan	7
d. community performance assess.	3

Strategic Planning Process Documentation 15

Subtotal 75

Quality of Commitments Toward Strategic Plan

Resources Leveraged	10
Resource Commitments Documented	15
Subtotal	25
TOTAL POINTS	100

ernment, businesses and foundations.

Structured to the task. Sometimes you need large meetings held in auditoriums to disperse a lot of information to a big group at one time. At other times in the process, there will need to be intimate meetings of a dozen or fewer people, that are more conducive to productive dialogue.

Collaborative. Assemble stakeholders who either don't normally sit down together or are hostile toward each other. Show them how their futures are linked and progress may be made.

Holistic. Complex problems require wide-ranging solutions. Crime rates didn't skyrocket overnight; housing for low-income families didn't disappear in a week; the disconnect between high-tech jobs and ill-prepared workers didn't just materialize. None of these problems has a quick-fix solution. Involving the broadest base of the community will inevitably produce a broad response plan.

Once the strategic plan collaborators have been assembled, they must agree up-front to a decision-making process. Not every decision will be unanimous, Crocker pointed out, but there must be consensus. Otherwise, planners can get bogged down on small points and lose sight of the task at hand.

Planning typically begins with what is known as a SWOT analysis. This is an inventory of community strengths, weaknesses, opportunities and trends. A SWOT analysis accounts for the present (by assessing strengths and weaknesses) and the future (by looking at opportunities, such as brownfields; and local trends, such as potential economic downturns).

From this analysis will come a collective vision, Crocker said. Within the vision, he said, it will be important to connect several programs and projects to create a so-called "seamless web" of resources. Again, dealing with complex problems calls for multi-prong solutions. High unemployment rates are not simply lowered by placing residents in new jobs. Perhaps the unemployed don't have jobs because they have no transportation to get to work, or no child care services in which to place their children while they work.

And while looking at broad solutions, communities also need to consider sustaining momentum. Short-term results will boost morale, but beware of a boomerang when programs — created without any consideration for the future — begin to fail.

Supplementing the strategic plan must be a listing and documentation of resources that EZ funding will leverage, either from private interests or other public sources.

Measuring performance

The way to see what momentum a community is building is through a series of performance measurements. Crocker said applicants should begin creating a performance measurement system at the beginning of the application process because it will take a lot of work. He suggested honing the system as applicants develop their governance structures, so the two will better work together in the future.

"This is not just another layer of bureaucracy," Crocker said of performance measurements. Rather, he explained, it ensures accountability and quantifies feedback on the investment of time and money in local projects. A reliable system requires measurable data, such as unemployment rates, average salaries and homeownership figures.

He compared the system to a map.

The starting point of the measurement system, or map if you will, is the **baseline**. If an applicant describes poor educational outcomes, baseline data should include dropout rates, standardized test scores, teen-age pregnancy rates and student-to-teacher ratios.

For each project planned, **outputs** should be projected. These immediate results could include: providing after school programs for 200 children at a community recreation center, forming a partnership with three local companies to employ teens after school and implementing a computer science curriculum in three area high schools.

Milestones help determine interim success. Milestones can refer to outcomes and outputs, and provide early warnings about changes needed in programs and projects.

Outcomes are the results that the outputs are meant to create. If an output were to create a business incubation program, the outcome could be to create 15 local businesses after one year. "Outcomes are more difficult to measure than outputs," Crocker noted, "because it is not always possible to see the link between cause and effect."

Governance structures

It has been demonstrated that effective EZs require effective leadership.

Crocker likened zone governance entities to stewards, who are not responsible for giving top-down orders but for simply protecting the zone's interests and looking out for the vision with which it has been charged.

In general, first-round EZs and ECs selected one of five governance structures. Some created a nonprofit entity, used an existing nonprofit, or based the EZ or EC in a city council, mayor's office or public agency, such as an office of economic development.

Crocker said each structure has advantages and disadvantages, and that second-round applicants would do well to adapt one of these structures to their own needs instead of copying directly. Regardless of where the seat of zone leadership rests, the governance board should have representation from all community sectors.

In deciding on a governing body, Crocker suggested taking the time to get things right. After all, he said, "the governing entity should change the way people think about the community."

From an economic standpoint, one of the main issues with which a governing body will deal is the use of zone tax incentives. To its credit, the Internal Revenue Service has rewritten tax guidelines to make some incentives easier to use.

Tax incentives

After cash grants, tax incentives make up a large part of the financial package for EZs.

Zones with populations of up to 100,000 will have authority to issue up to \$130 million in tax-exempt bonds for project financing. Zones with more than 100,000 residents can issue up to \$230 million in such bonds. In either case, this is authority beyond state bonding caps. This is a major improvement from round one. Authority also can be used at the developable sites that applicants may add to their zones.

Zone businesses that invest in themselves by purchasing new equipment or expanding their buildings are eligible for a tax deduction under Section 179 of the federal tax code. Regulations have allowed for annual deductions of about \$18,000 under this section. For EZs and other distressed communities, an additional annual deduction of \$20,000 is now allowed.

Dennis Kane, coordinator of the EZ/EC initiative at HUD, said this change is "especially good for small business" since

it will allow entrepreneurs to invest more. "If you want to grow small businesses," he said, "this is the way to go."

Other tax incentives available are:

Environmental cleanup cost deduction. Businesses may deduct qualified environmental costs, either for cleanup or to address the threat of contamination. This is available for costs incurred between August 1997 and January 2001.

Qualified zone academy bonds. Starting this year, state and local governments can issue academy bonds to raise funds for local public schools. Funds can be used to rehabilitate school buildings, pay for teacher training, buy equipment and develop course materials. Use of the bonds is contingent on a partnership between schools and private businesses that pledge up to at least 10 percent of the bond issue value to the school. The school then may use this contribution for equipment, technical assistance for developing curriculum or training teachers, and other qualified uses.

Work opportunity credit. Businesses may deduct part of salaries paid to residents of EZs and ECs, as well as food stamp recipients, who are hired before June 1998. This credit expires in June, although the Clinton Administration has been pressing Congress to extend it.

Welfare-to-work credit. Employers who hire long-term family assistance recipients between December 1997 and April 1999 may deduct a percentage of wages paid.

As communities draw up their applications, HUD wants them to consider how they might use available tax incentives. HUD requires applicants to submit incentive utilization plans.

Interagency effort

Much of the information regarding the EZ/EC initiative comes out of HUD. However, as shown with IRS involvement in facilitating the use of tax incentives, many other federal agencies play a role in this revitalization effort.

This ranges from the Commerce Department and its Economic Adjustment Program to the Treasury Department and its Community Development Financial Institutions Fund. A comprehensive guide to all federal revitalization programs has been published by the President's Community Empowerment Board. Free copies are available from HUD's Community Connections hotline, 800/998-9999.

Resource

Corner

Empowerment Zones/Enterprise Communities

Now operating in its fourth full year, the federal Empowerment Zone/Enterprise Community initiative has produced results nationwide. Case studies from the 105 designated communities are organized by subject area in *What Works! in the Empowerment Zones and Enterprise Communities: Volume II*. Topics include: workforce development, access to capital, infrastructure, human services and community-based partnerships.

The guide can be ordered from HUD's Community Connections hotline at 800/998-9999.

Environment

As part of ongoing research into brownfields reuse, the Department of Housing & Urban Development has released *The Effects of Environmental Hazards and Regulation on Urban Redevelopment*. The publication considers how environmental risk and neighborhood economic stress influence redevelopment, how HUD's Community Development Block Grant program augments local redevelopment efforts and innovations for financing brownfields activities. The report was prepared by The Urban Institute, Northeast-Midwest Institute, University of Louisville and University of Northern Kentucky.

The report can be downloaded from the Internet at www.huduser.org/publications/pubs.html. Copies can be ordered from HUD USER for \$5 by calling 800/245-1691.

The Community Information Exchange (CIE) has published *Case Studies on Communities Creating Jobs and Protecting the Environment*, an analysis of 20 case studies that link community development and the environment. This report focuses on programs that have created jobs or provided workforce training with an environmental focus in low-income, urban neighborhoods. The analysis features trends in funding, partners and organizational roles.

To order, contact CIE at 202/628-2981.

Microenterprise

The Microenterprise Best Practices Project (MBP) offers a series of research reports on microfinance that can be downloaded free from the Internet. The latest report is *Training Goes to Market: A Comparative Study of Two Kenyan Training Programs*. Earlier publications include reports on alternative financing mechanisms, business development services and the evolution of credit methodologies.

MBP reports can be downloaded from the Internet at www.mip.org/pubs/pubs-def.htm, or ordered from: Development Experience Clearinghouse, 703/351-4006; or Internet, www.dec.org.

Sprawl

Problems caused by urban sprawl and available alternatives to this type of development are addressed in "Curbing Urban Sprawl," the January/February issue of HUD USER's *Urban Research Monitor*. The issue argues that sprawl undermines urban areas, compromises community life for suburbanites and contributes to a lack of affordable housing. The issue offers planned growth as the alternative to sprawling development.

This issue of *Urban Research Monitor* is \$2.50 from HUD USER, 800/245-2691.

Transportation

Access to Jobs: A Guide to Innovative Practices in Welfare-to-Work Transportation looks at case studies in seven states and eight communities. Published by the Community Transportation Association of America (CTAA), the report summarizes the challenges created by welfare reform and how officials have developed creative responses.

The report is free from CTAA, 202/628-1480.

Economic Development Census Reflects Impact Of CDCs

Community development corporations (CDCs) have been in existence since the late 1960s. However, as recently as the 1980s, no one knew how many CDCs existed or how many jobs and housing units they had created.

With little more than anecdotal data, it was difficult to convince public policy makers that CDCs were worth the investment of additional public resources.

The National Congress for Community Economic Development recognized that this lack of concrete data was limiting the ability of CDCs to attract financing and decided to conduct a comprehensive national census. The first census was conducted in 1988, with additional censuses in 1991 and 1994. The fourth national census will be conducted later this year.

Creating change by creating jobs

One observable trend that has appeared over the years has been the increase in the number of CDCs engaged in job creation projects. The most common approach to job-creation among CDCs has been the use of small business or micro-business revolving loan programs. CDCs also have been developing business incubators, commercial sites and industrial parks.

To gather broader data in this census, questionnaires were sent to CDCs and a more comprehensive list of community-based development organizations (CBDOs), such as community action agencies and neighborhood housing services organizations. A CBDO is any community-based nonprofit that develops housing or creates jobs through commercial, industrial or business development.

Making inroads

The 1994 survey showed that there were 2,000-2,200 CBDOs across the country. Of the total, 63 percent served urban areas and another 18 percent served a mixture of urban and rural areas. Up to 1994, CBDOs had developed 23 million square feet of commercial and industrial space, loaned \$200 million to local businesses and created 67,461 full-time jobs or equivalent positions (not including jobs due to construction activities). Approximately 18 percent of

CBDOs reported having completed commercial or industrial projects, the same percentage as in 1991. However, the amount of commercial and industrial space developed by CBDOs increased by 38 percent over the three-year period.

The 1998 survey questionnaire has been designed and will be mailed to every CBDO during the first part of the summer. In addition to an increase in the number of groups, we expect to see a continued growth in the number of CBDOs involved in job-creation activities, particularly more examples of micro-business lending and an increase in the development of supermarkets.

A report summarizing the latest census results will be published in early 1999. It will be distributed to public policy makers, key decision makers with corporations and foundations, and the media. Copies will be available to CBDOs for distribution at the local level. Previous census reports have been a critical tool for educating public and private sector leaders about the accomplishments of CBDOs. Previous reports have been cited by members of Congress in committee sessions and have been quoted extensively in the media.

One of the main messages that comes through in the report is a sense of the size and breadth of the field of community economic development. Often policy makers are aware of an individual group or two in their own area, but don't know that more than 2,000 other groups exist in the country.

NCCED hopes to encourage more partnerships among CBDOs and the public and private sectors. It hopes the new data will help CBDOs reach out to some new partners in order to bring more resources to bear for the revitalization of low-income communities.

Questions? To be put on a mailing list to receive a questionnaire, contact Kevin Kelly at NCCED, 202/234-5009.

Build Excitement In Your Community

Cities of all sizes are capitalizing on retail and cultural attractions to bring shoppers and homeowners back from suburbia. See what's being done around the country at *Urban Entertainment Projects: Building Excitement in Your Community*, a three-day conference sponsored by the Council for Urban Economic Development (CUED). The conference runs June 14-16 in Buffalo, N.Y.

For registration information, call CUED at 202/223-4735.